

**REMARKS OF
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THE KYOTO PROTOCOL: GLOBAL ECONOMIC GROWTH AND FREE TRADE LIE IN THE BALANCE

0 This is a warning from a free trader. The Kyoto Protocol threatens to undo the considerable progress that has been made in opening up international trade.

0 This ill-conceived treaty has the potential to create significant trade barriers, to reduce world wealth, and to create a political backlash in America that will make free trade policies unsustainable.

0 The heart of the problem is that the treaty exempts so-called “developing countries” and hits at the core of modern manufacturing by requiring drastic reductions in fossil energy use in the near term.

0 This treaty is fundamentally incompatible with every free market theory since Adam Smith’s “Wealth of Nations” first argued for free trade over mercantilism.

0 For the developed world, the Kyoto Treaty would cause massive economic realignment or, stated differently, a prolonged series of mini-shocks, as countries strive to reduce energy demand and increase energy efficiency to meet their targets. Also, as a consequence, global economic growth would decline.

0 In order to survive, the many so-called “developed nations” will have to resort to protectionism and trade sanctions. And I submit, the pressure in the U.S. to follow suit will be unstoppable, if the treaty as written goes into effect.

The Kyoto Protocol Goes Too Far, Too Fast and Totally Exempts Developing Countries.

0 The Kyoto agreement would legally bind major developed nations, including the United States, to reduce dramatically in the very near term greenhouse gases, chiefly carbon dioxide, the gas we exhale as we breathe, but also the main bi-product of the combustion engine and coal power plants.

0 The greatest burden would fall on the U.S. The Clinton-Gore Administration committed the U.S. to reducing greenhouse gases by 7% below 1990 levels. That translates into reductions of emissions by about 30% from business-as-usual.

0 However, while the treaty imposes rigorous requirements on industrial nations, it exempts all 134 developing countries, out of 168 nations, from any new commitments, regardless of their economic development or the quantity of greenhouse gases they emit. Huge emissions producers like China, India, South Korea, Brazil, and Mexico are excluded.

0 Despite considerable efforts to win concessions from developing countries, the Clinton-Gore Administration completely failed. China and India, particularly, were adamant in refusing any hint of a concession.

o Nor is there any real incentive under the treaty for developing countries to commit themselves to mandatory reductions. For example, under the treaty, developing countries can already “sell” an unlimited supply of emissions credits under the Clean Development Mechanism, why would they accept an emissions target so they could “trade” a limited supply of credits?

How Are We Going to Achieve the Kyoto Targets You Might Ask?

o Currently, there is a multi-billion-dollar government crusade to promote renewable energy for electricity generation. There has been a particular push to subsidize solar and wind. However, the costs are astronomical. For example, solar power capacity is triple the cost of new gas generated electricity and quadruple the cost of surplus power.

o The Clinton Administration also has another answer -- equally as unrealistic. We'll just transfer our dollars to developing countries who are not part of the treaty to help finance projects that will cut back on emissions. The problem is that these developing countries will gladly take our foreign aid, tear down the polluting factory in one part of town, and build another down the street. Since they are not covered by a cap on emissions, no amount of U.S. aid will allow the treaty to work. Moreover, U.S. companies will be forced to pay billions, and lose any chance of competing in the world market.

o Finally, emissions trading is completely a joke. The treaty only includes trading as a concept. The rules and procedures have yet to be agreed upon and they will be determined by the developing countries, which are not subject to any restrictions under the treaty.

o Moreover, Russia and the Group of Seven leading industrialized nations, including the U.S. of course, have recently agreed not to use emissions trading to evade painful domestic reductions in greenhouse gas emissions.

o What all of this means is that the real way in which the Kyoto Treaty will be implemented is through extraordinary price increases which will drive out productive industry and force dramatic cuts in consumption by all Americans.

o Historically, the only period that underwent similar radical changes in energy use was the late 1970s and early 1980s -- and the restructuring drove American energy intensive well-paying manufacturing jobs overseas.

o At the recent hearing conducted by my Subcommittee on Regulatory Affairs, economic experts testified that significant adverse impacts on the U.S. economy and American jobs could occur by 2010 from mandating early actions to reduce emissions dramatically. Economists from WEFA, Standard & Poor's DRI, and the American Council for Capital Formation pointed out the following:

- ▶ There is no way to reduce emissions by about 30% by the Kyoto deadlines without sharply raising the cost of energy.
 - ▶ Consumers could see price increases of 30 to 55 percent. For example, electricity could increase 55%, home heating oil 70%, gasoline 48%.
 - ▶ Real GDP could decline by 3.2%. The lost GDP, just in the year 2010, is equal to 300 billion 1992 dollars, approximately equal to total public and private expenditures on elementary and secondary education.
 - ▶ Approximately 0.8 to 3.1 million jobs could be lost.
- o The Kyoto Treaty also would significantly damage the trade competitiveness of the U.S. and other developed nations.
 - o The Energy Policy Institute estimates that the U.S. trade deficit could increase by at least \$149 to \$240 billion annually, as higher energy prices increase the competitiveness of exporters based in such low-wage developing countries as China and South Korea.
 - o Most assuredly, the Kyoto Protocol will accelerate the flight of multinational firms in the developed world to developing nations to take advantage of cheap labor, lower capital expenses and production costs, and lack of enforcement of labor and safety laws
 - o Finally, the ABARE (Australian Bureau of Agricultural and Resource Economics) study concluded that, through the process of international trade, many developing countries would be adversely affected by the economic troubles of the developed world. Overall, there would be a net decline in global economic growth, resulting in tremendous loss of wealth and a decline in general welfare.
 - o Let me point out that reductions in the economic growth of developed countries will impede the ability of emerging countries with export markets to transition to more energy efficient technologies.

The Lack of a Level Playing Field under the Kyoto Treaty will Provoke Trade Restrictions and Protectionism.

- o The projected costs of the Kyoto Protocol run in the hundreds of billions of dollars per year. While Ross Perot and labor raised fears about NAFTA, wait until we hear that great sucking sound from the Kyoto Treaty. The impact on workers will be devastating. These costs will put significant pressure on the U.S. and other developed nations to impose trade sanctions to maintain their well-being in the face of declining competitiveness with the rest of the world.

o Countries complying with Kyoto will seek greater exceptions to the WTO Agreement in the name of economic survival. They will attempt to legitimize trade restrictions designed to compel unwilling nations to comply with Kyoto's requirements. After all, without such trade sanctions, developing countries will be "free riders," negating environmental gains from the actions of the developed countries. A recently released Energy Information Administration analysis shows that even if developed countries were able to achieve targeted reductions, worldwide emissions levels would continue to rise by 32 percent between 1990 and 2010.

o However, using such a blunt and broad policy instrument as economic sanctions would severely affect the working lives and standard of living of every citizen subject to them.

o Using trade sanctions also would significantly undermine the World Trade Organization. It would demonstrate that trade restrictions can be used to achieve political ends.

o In summation, the Kyoto Treaty is fundamentally flawed and threatens to undermine our free trade system. This treaty should not be signed, no less ratified. Moreover, we must ensure that the Clinton-Gore Administration does not implement this agreement through regulatory fiat or other means. All free traders must unite and help us to drive a stake through the heart of Kyoto and any effort by Clinton and Gore to use the regulatory back-door.